

GAZIFÈRE INC.
PRE-FILED EVIDENCE OF BRANDON SO AND ANTON KACICNIK
REGARDING COST ALLOCATION – CHANGE OF METHODOLOGY
2018 RATE CASE

Q.1 Please state your full name and your current position.

A.1 My name is Brandon So. I am the Cost Allocation Specialist at Enbridge Gas Distribution. I am Anton Kacicnik, I am Manager Rate Design at EGD.

Q.2 What are your professional qualifications, experience, and previous appearances before this or other regulatory tribunals?

A.2 Please refer to our Curriculum Vitae filed at Exhibit GI-40, document 3 and GI-41, document 4.

Q.3 What is the purpose of this testimony?

A.3 I am presenting the results of the fully allocated cost study reflecting the proposed changes to the allocation of Mains Capacity-related costs to the customer rate classes for the 2018 test year. Below is a detailed explanation of why and how the proposed changes were made and the resulting impact on the allocation of the Mains Capacity- related costs to the customer rate classes.

The proposed Revised Fully Allocated Cost Study is found at Exhibit GI-42, Documents 2.1 to 2.9. Document 2.1 is a summary of the proposed study's results and a comparison with the existing methodology is reproduced below in Table 1.

GAZIFÈRE INC.
 PRE-FILED EVIDENCE OF BRANDON SO AND ANTON KACICNIK
 REGARDING COST ALLOCATION – CHANGE OF METHODOLOGY
 2018 RATE CASE

| Table 1 | | | |
|--|--|---|--|
| COST OF SERVICE COMPARISON (PROPOSED VS. CURRENT METHODOLOGY) | | | |
| | Col. 1 | Col. 2 | Col. 3 |
| | <u>Cost of Service</u> <u>(Proposed Methodology)</u> <i>\$Thousand</i> | <u>Cost of Service</u> <u>(Current Methodology)</u> <i>\$Thousand</i> | <u>Difference</u> <i>\$Thousand</i> |
| Rate 1 | 5,519.3 | 5,522.2 | (2.90) |
| Rate 2 | 20,069.0 | 19,735.8 | 333.21 |
| Rate 3 | 14.2 | 13.7 | 0.5 |
| Rate 4 | 97.0 | 91.0 | 6.0 |
| Rate 5 | 131.7 | 311.7 | (180.0) |
| Rate 9 | 132.3 | 289.2 | (156.9) |
| Total | 25,963.5 | 25,963.5 | 0.0 |

Q.4 Please describe the existing methodology to allocate the cost of gas distribution mains to the customer classes. Specifically, please describe the allocation of capacity-related costs.

A.4 Under Gazifère’s existing methodology, mains costs are first classified as capacity-related and customer-related.

Capacity-related costs are then allocated to the customer / rate classes based on bundled peak deliveries (see below for a further description of the methodology), while customer-related costs are allocated based on the number of customers in each rate class.

GAZIFÈRE INC.
PRE-FILED EVIDENCE OF BRANDON SO AND ANTON KACICNIK
REGARDING COST ALLOCATION – CHANGE OF METHODOLOGY
2018 RATE CASE

Gazifère is not proposing any changes to the allocation of customer-related mains costs.

Gazifère uses the Capacity Assigned and Used (“CAU”) methodology to allocate capacity-related costs to the customer classes.

Under the CAU methodology, the allocation of capacity-related costs is determined in a two-step process.

First, in step 1, the bundled peak day requirements are determined for all firm service customer / rate classes. The unit capacity cost is determined by dividing the capacity-related cost by the sum of the annual capacity assignments for each firm rate class. The capacity-related cost for each rate class is the product of this unit cost and the annual capacity assignment for that rate class.

At this step, the entire capacity related cost of the distribution system is borne by the firm rate classes, since Gazifère's interruptible customers are assumed to be curtailed under peak day conditions.

In step 2, a comparison is made between the annual capacity assigned to a rate class and its annual volumes. Since the firm rate classes do not consume at a 100% load factor, there is some excess or unutilized capacity

GAZIFÈRE INC.
PRE-FILED EVIDENCE OF BRANDON SO AND ANTON KACICNIK
REGARDING COST ALLOCATION – CHANGE OF METHODOLOGY
2018 RATE CASE

available outside of the peak day conditions. Also, since interruptible customers are not assigned any capacity in step 1, it follows that they are utilizing capacity that is fully paid for by the firm customers.

The interruptible customers' share of the capacity-related cost is determined by multiplying the unit capacity cost, derived in step 1 by their annual volumes. The cost allocated to the interruptible customers is then credited back to the firm rate classes in proportion to their unutilized annual capacity. This approach results in less capacity-related costs being allocated to interruptible customers than firm customers, but at the same time recognizes that interruptible customers use the system capacity outside of peak day conditions.

Although interruptible customers are curtailed under peak day conditions (and, therefore, receive a lower quality of service due to interruptions of service than firm customers), this methodology recognizes that interruptible customers nevertheless do utilize system capacity outside of peak day conditions and results in a reasonable sharing of capacity-related costs between firm and interruptible customer classes.

Based on the existing allocation methodology of capacity related costs, interruptible customers (Rate 9) are allocated approximately 2.87% of the total capacity-related costs.

Q.5 Why is Gazifère proposing a change in the methodology to allocate the

Original: 2017-10-31

GI-42
Document 1
Page 4 de 12
Requête 4003-2017

GAZIFÈRE INC.
PRE-FILED EVIDENCE OF BRANDON SO AND ANTON KACICNIK
REGARDING COST ALLOCATION – CHANGE OF METHODOLOGY
2018 RATE CASE
mains capacity-related costs to the customer classes?

- A.5 As part of the Régie’s decision D-2017-028, Gazifère was directed by the Régie to conduct an assessment on the allocation of the Mains Capacity-related costs to the customer rate classes and submit the results for assessment in the 2018 rate case.

The Régie’s direction was based on Intervener submissions and the Examination in Chief in the 2017 proceeding on January 17, 2017 (R-3969-2016, Phase 2) where Gazifere indicated that customers who are supplied directly by “Extra High Pressure” and “High Pressure” mains should not be allocated costs associated with “Low Pressure Distribution Main”, provided that the Company has the necessary and accurate information about the pressure classification of its mains within the gas distribution network and about customers being served off low, high and extra-high pressure mains.

The proposed methodology supports the principle of cost causality given that under the proposed methodology each customer class would specifically pay for the capacity-related assets they use to receive service.

The proposed methodology would also formalize a requirement for the Company to continue keeping thorough and complete records of its mains assets and customers being served off each mains pressure category. Said differently, it is a good operating practice for the Company to know well its system and its customers.

GAZIFÈRE INC.
PRE-FILED EVIDENCE OF BRANDON SO AND ANTON KACICNIK
REGARDING COST ALLOCATION – CHANGE OF METHODOLOGY
2018 RATE CASE

Q.6 Please describe the steps in the proposed methodology to allocate capacity-related costs to the customer classes.

A.6 The proposed methodology consists of three steps as described below.

Step 1

The first step of the proposed approach is to identify customers within the pressure classification categories of its mains within the gas distribution network and identify customers being served off low, high and extra-high pressure mains. The customers' connection data is presented below in Table 2, Item 1.0 (GI-42, Doc 2.9, Item 1.0).

The peak day demand per customer by rate class is determined by dividing the peak day demand by the number of customers by rate class and the result can found in Table 2, Item 2.3 (GI-42, Doc 2.9, Item 2.3).

Gazifère's Mains capacity costs are classified as approximately 27% customer-related and 73% capacity related. Under the proposed methodology, capacity-related costs are further sub-classified as extra high pressure, high pressure, and low pressure.

Under the proposed approach, capacity related costs are allocated to the different rate classes based on peak day demand. Since interruptible customers, Rate 9, are curtailed under peak day conditions, the proposed methodology would result in no capacity related costs being allocated to Rate 9 customers. Gazifère, however, recognizes that Rate 9 customers still utilize the Mains capacity outside peak day

GAZIFÈRE INC.
 PRE-FILED EVIDENCE OF BRANDON SO AND ANTON KACICNIK
 REGARDING COST ALLOCATION – CHANGE OF METHODOLOGY
 2018 RATE CASE

conditions and, thus, the Company proposes to adopt a hybrid approach with reference to the Capacity Assigned and Used (“CAU”) methodology from the existing Fully Allocated Cost Study. Accordingly, the Company proposes that one tenth of Rate 9 peak day demand should be used within the proposed approach in recognition of its operational characteristics (i.e., interruptible customers utilize system capacity outside peak day conditions and in light of a lower quality of service they receive (due to service interruptions) as compared to firm customers). This approach results in approximately the same allocation factor for Rate 9 customers on the extra high pressure system as the allocation factor derived for Rate 9 customer under the CAU methodology.

Table 2

| GAZIFERE INC. | | | | | | | | | | |
|----------------|---------------------|--|--|----------------|----------------|----------------|----------------|----------------|----------------|--------------|
| Customer Count | | | | | | | | | | |
| | | | | Col.1 | Col.2 | Col.3 | Col.4 | Col.5 | Col.6 | Col.7 |
| | | | | <u>TARIF 1</u> | <u>TARIF 2</u> | <u>TARIF 3</u> | <u>TARIF 4</u> | <u>TARIF 5</u> | <u>TARIF 9</u> | <u>TOTAL</u> |
| 1.1 | Extra High Pressure | | | 91 | 61 | - | - | - | 1 | 153 |
| 1.2 | High Pressure | | | 293 | 134 | - | - | 1 | 2 | 430 |
| 1.3 | Low Pressure | | | 2,847 | 38,794 | 3 | 1 | - | - | 41,645 |
| 1.0 | Total | | | 3,231 | 38,989 | 3 | 1 | 1 | 3 | 42,228 |
| | | | | <u>TARIF 1</u> | <u>TARIF 2</u> | <u>TARIF 3</u> | <u>TARIF 4</u> | <u>TARIF 5</u> | <u>TARIF 9</u> | |
| 2.1 | Peak Day Demand | | | 632,421.4 | 700,376.9 | 1,367.0 | 15,000.0 | 50,000.0 | 41,500.0 | |
| 2.2 | Customer Count | | | 3,231.0 | 38,989.0 | 3.0 | 1.0 | 1.0 | 3.0 | |
| 2.3 | PD Demand/Customer | | | 195.7 | 18.0 | 455.7 | 15,000.0 | 50,000.0 | 13,833.3 | |

GAZIFÈRE INC.
PRE-FILED EVIDENCE OF BRANDON SO AND ANTON KACICNIK
REGARDING COST ALLOCATION – CHANGE OF METHODOLOGY
2018 RATE CASE

Step 2

In Step 2, Mains capacity allocators for each rate class for Extra High Pressure, High Pressure, and Low Pressure Mains are determined based on the customers connection data presented in Table 2.

Extra High Pressure Main Allocator

The proposed approach assumes that all gas flows first through the extra high pressure system in order to reach the high pressure system. Thus, the peak day demand of each rate class is assigned to the “Extra High Pressure” category. For example, peak day demand of 632,421.4m³ under Rate 1 is being allocated to Extra High Pressure Mains. The same logic applies to the other rate classes in determining their respective allocators. The result can be found under Table 3, Item 2.1(GI-42, Doc 2.8, Item 2.1).

High Pressure Main Allocator

In order to determine the High Pressure Main allocator, customers connected only to Extra High Pressure Mains should not be included in determining the peak day demand of High Pressure Mains. For example, 91 customers connected to Extra High Pressure mains under Rate 1 with a total peak day demand of 17,811.9 m³, which is deducted from the peak day demand under High Pressure Mains. In this case, the total peak day demand assigned to High Pressure Mains under Rate 1 is 614,609.5 m³ (632,421.4 – 17,811.9).

Low Pressure Main Allocator

GAZIFÈRE INC.
PRE-FILED EVIDENCE OF BRANDON SO AND ANTON KACICNIK
REGARDING COST ALLOCATION – CHANGE OF METHODOLOGY
2018 RATE CASE

Step 3

The final step, the allocation of the classified costs (return on rate base, net investment costs, and operating and maintenance expenses) to each rate class is found in Table 4 (GI-42, Doc 2.7) and the consolidated allocator for each rate class is presented in Table 5. Table 6 provides a comparison between allocation percentages (used to allocate capacity-related costs to the customer classes) between the proposed and existing methodologies.

Table 4

| GAZIFERE INC. | | | | | | | | | |
|----------------------------------|-------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------|--|
| Capacity Cost Allocation | | | | | | | | | |
| December 31, 2018 | | | | | | | | | |
| | | Col.1 | Col.2 | Col.3 | Col.4 | Col.5 | Col.6 | Col.7 | |
| Rate Base | \$41,596.40 | <u>TARIF 1</u> | <u>TARIF 2</u> | <u>TARIF 3</u> | <u>TARIF 4</u> | <u>TARIF 5</u> | <u>TARIF 9</u> | <u>TOTAL</u> | |
| 1.1 Extra High Pressure | | \$ 2,504.88 | \$ 2,774.03 | \$ 5.41 | \$ 59.41 | \$ 198.04 | \$ 164.37 | \$ 5,706.15 | |
| 1.2 High Pressure | | \$ 3,436.99 | \$ 3,910.49 | \$ 7.64 | \$ 83.88 | \$ 279.61 | \$ 154.72 | \$ 7,873.34 | |
| 1.3 Low Pressure | | \$12,288.61 | \$15,367.38 | \$ 30.14 | \$ 330.78 | \$ - | \$ - | \$28,016.91 | |
| 1. Total | | \$18,230.48 | \$22,051.91 | \$ 43.20 | \$ 474.07 | \$ 477.65 | \$ 319.09 | \$41,596.40 | |
| Return & Taxes | \$ 2,984.04 | <u>TARIF 1</u> | <u>TARIF 2</u> | <u>TARIF 3</u> | <u>TARIF 4</u> | <u>TARIF 5</u> | <u>TARIF 9</u> | <u>TOTAL</u> | |
| 2.1 Extra High Pressure | | \$ 179.69 | \$ 199.00 | \$ 0.39 | \$ 4.26 | \$ 14.21 | \$ 11.79 | \$ 409.35 | |
| 2.2 High Pressure | | \$ 246.56 | \$ 280.53 | \$ 0.55 | \$ 6.02 | \$ 20.06 | \$ 11.10 | \$ 564.82 | |
| 2.3 Low Pressure | | \$ 881.56 | \$ 1,102.42 | \$ 2.16 | \$ 23.73 | \$ - | \$ - | \$ 2,009.87 | |
| 2. Total | | \$ 1,307.82 | \$ 1,581.96 | \$ 3.10 | \$ 34.01 | \$ 34.27 | \$ 22.89 | \$ 2,984.04 | |
| O&M + Net Investments | \$ 4,472.23 | <u>TARIF 1</u> | <u>TARIF 2</u> | <u>TARIF 3</u> | <u>TARIF 4</u> | <u>TARIF 5</u> | <u>TARIF 9</u> | <u>TOTAL</u> | |
| 3.1 Extra High Pressure | | \$ 269.31 | \$ 298.25 | \$ 0.58 | \$ 6.39 | \$ 21.29 | \$ 17.67 | \$ 613.50 | |
| 3.2 High Pressure | | \$ 369.53 | \$ 420.44 | \$ 0.82 | \$ 9.02 | \$ 30.06 | \$ 16.63 | \$ 846.50 | |
| 3.3 Low Pressure | | \$ 1,321.21 | \$ 1,652.22 | \$ 3.24 | \$ 35.56 | \$ - | \$ - | \$ 3,012.23 | |
| 3. Total | | \$ 1,960.29 | \$ 2,369.21 | \$ 4.69 | \$ 51.51 | \$ 51.87 | \$ 34.65 | \$ 4,472.23 | |

| Table 5 | Total | Rate 1 | Rate 2 | Rate 3 | Rate 4 | Rate 5 | Rate 9 |
|-----------------------|-------|--------|--------|--------|--------|--------|--------|
| Allocation Factor | 1.00 | 0.44 | 0.53 | 0.0010 | .0114 | 0.0115 | 0.0077 |
| Allocation Percentage | | 43.83% | 53.01% | 0.1% | 1.14% | 1.15% | 0.77% |

GAZIFÈRE INC.
 PRE-FILED EVIDENCE OF BRANDON SO AND ANTON KACICNIK
 REGARDING COST ALLOCATION – CHANGE OF METHODOLOGY
 2018 RATE CASE

| Table 6 | | | |
|--|---|--|-------------------|
| ALLOCATION PERCENTAGE COMPARISON (PROPOSED VS. CURRENT METHODOLOGY) | | | |
| | Col. 1 | Col. 2 | Col. 3 |
| | <u>Allocation Percentage (Proposed Methodology)</u> | <u>Allocation Percentage (Current Methodology)</u> | <u>Difference</u> |
| Rate 1 | 43.83% | 43.86% | (0.03%) |
| Rate 2 | 53.01% | 48.54% | 4.47% |
| Rate 3 | 0.10% | 0.10% | 0.0% |
| Rate 4 | 1.14% | 1.06% | 0.08% |
| Rate 5 | 1.15% | 3.57% | (2.42%) |
| Rate 9 | 0.77% | 2.87% | (2.10%) |
| Total | 100% | 100% | 0.0 |

Q.7 Does the proposed methodology impact any of the classified costs or any other allocation of costs to the customer classes, except the allocation of capacity-related costs?

A.7 No, it does not.

The proposed methodology only impacts the allocation of capacity-related costs to the customer classes: namely classified capacity-related rate base, return & taxes and O&M amounts.

Gazifère confirms that the classified costs being allocated for:

- Rate Base - \$41,596.40
- Return & Taxes - \$2,984.04, and
- O&M + Net Investments - \$4,472.23

GAZIFÈRE INC.
PRE-FILED EVIDENCE OF BRANDON SO AND ANTON KACICNIK
REGARDING COST ALLOCATION – CHANGE OF METHODOLOGY
2018 RATE CASE

are identical between the existing and the proposed fully allocated cost study.

In the Company's view the proposed approach results in enhanced cost causality with respect to mains capacity-related cost.

Q.8 Does this conclude your evidence?

A.8 Yes it does.